

YUKON ENERGY CORPORATION

2016 BUSINESS PLAN

18 May 2016



**YUKON
ENERGY**

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1.0 MANDATE

Yukon Energy (YEC) plans, generates, transmits and distributes a continuing and adequate supply of cost-effective, sustainable, clean and reliable energy for customers in Yukon.

2.0 PRINCIPLES AND VALUES

YEC employees share a set of core values:

- Honesty;
- Integrity; and
- Respect for people and the environment.

YEC's leadership applies the following principles in everything we do:

- A commitment to safety in all company operations and work practices;
- Team-based approach to leadership and decision-making;
- Focus on accountability, based on clear expectations and goals/targets;
- Open communications with staff and stakeholders; and
- Commitment to continuous improvement at all levels of the organization.

3.0 STRATEGIC CONTEXT

Yukon Energy Corporation is a renewable energy company with limited remaining surplus hydro capacity, working to meet uncertain future electricity demands. A key challenge for YEC is to mitigate potential rate increases despite increasing cost pressures and ageing infrastructure, while in the longer term developing new renewable energy supply projects to meet future demand.

In 2014 YEC completed a strategic review that focused on a number of strategic challenges facing the Corporation. The key conclusions and actions from the strategic review included:

- Confirming YEC's commitment to a renewable future;
- Promoting the broad adoption of renewable energy and GHG emissions mitigation in Yukon by supporting innovative pilot projects and partnerships;
- Proactively planning for future demand growth;
- Creating a Renewable Energy Strategy;
- Forming an integrated Task Force with Yukon Government departments and agencies to work collaboratively and proactively with large new customers greater than 3 MW who want to connect to the grid; and
- Creating certainty and consistency in forging First Nation (FN) relationships.

In 2015, Yukon Energy's Board of Directors provided further guidance and refinements to a number of these points. The key elements are as follows:

- a) Timing of new energy/capacity projects: YEC will seek to match growth in non-Industrial demand with baseload renewable supply projects, while minimizing interim thermal generation. The size and timing of new supply projects will be planned to maximize net rate payer benefits, while meeting a project profile that can achieve YUB approval for inclusion in the rate base.
- b) Green Energy: YEC will consider the added value of projects that have lower carbon emissions for resource planning purposes.
- c) Support of public policy initiatives: YEC can facilitate and support public policy initiatives, but any associated costs incurred by YEC that cannot be passed on to ratepayers with YUB approval must be covered by external (government) funding.
- d) Industrial Connections: YEC is supportive of future industrial grid connections, but will not burden existing rate payers with additional costs incurred to serve new industrial (mining) customers. YEC will look to work with Yukon government and prospective new Industrial customers in a collaborative, transparent manner to assess proposed grid connections (e.g. through a multi-party mining taskforce).

4.0 SITUATIONAL ANALYSIS

4.1 ECONOMIC

Demand for electricity in Yukon is driven by a number of factors, including weather, population growth, industrial consumption and customer behaviour. A number of these drivers are, in turn, closely linked to the general health of the territorial economy. The Conference Board of Canada reports that the real gross domestic product (GDP) of the Yukon declined from 2013 to 2015, however a 2.7 percent increase in GDP is forecast for 2016. Exploration spending by the mining sector has declined from \$325 million in 2011 to approximately \$100 million in 2015. 2015 also saw the temporary closure of Yukon Zinc, a phased temporary shut-down announcement for 2017 by Capstone Mining for the Minto Mine, and the recent suspension of mine development and permitting activities by Selwyn Chihong. While the 2016-2017 territorial budget includes capital and infrastructure spending which will provide stimulus to the local economy, it is likely that Yukon Energy will continue to face a challenging environment in its core industrial, residential and commercial market segments in 2016. In particular, with the projected temporary shut-down of Minto Mine in Q2 2017, electricity sales will likely decline by approximately 37 GWh in 2017, representing a nine percent decline in revenue when compared to 2016.

4.2 POLITICAL

A series of working groups has been formed with the provincial and territorial governments to investigate four specific topics related to climate change, namely clean technology, innovation and jobs, carbon pricing, and mitigation. The reports by these working groups will be used to develop a pan-Canadian framework for clean growth and climate change, which is expected in early 2017.

The 2016 federal budget included \$5 billion funding for green infrastructure (over five years). Of this funding, \$518 million (over five years) is allocated for ‘climate change mitigation and adaptation infrastructure projects’.

In the territorial context, Yukon Energy is accountable for meeting policy directives as outlined by the Yukon government and its agencies. Key recent policy developments include:

- a) Independent Power Producer (IPP) Policy: the IPP policy was issued in October 2015, and the utilities (ATCO Electric Yukon and YEC) are actively working with the Yukon government to structure the Standing Offer Program (SOP) for launch by October 2016. The SOP is intended to provide a standardized technical and commercial framework for grid connections in small capacity range (30-1000kW). In order to deliver on the IPP Policy target of 10 percent of new electrical demand being met by the IPP sector, YEC will make an allowance for IPP-sourced energy in its assumptions for future supply options in the 2016 Resource Plan update.
- b) Biomass Strategy: The Biomass Energy Strategy was issued in February 2016, and identifies the potential for biomass energy as a viable alternative to fossil fuels for space heating, reducing greenhouse gas emissions from the residential and institutional sectors. The use of biomass energy for space heating has the potential to compete with Yukon Energy’s secondary sales program (which is specifically targeted at displacing fossil-fuel based heating systems in larger commercial and institutional buildings), and could also represent future competition with electricity in the electrification of the residential space heating market.
- c) Climate Change Action Plan: in December 2015 the Yukon government issued a progress report on the Climate Change Action Plan. The report presented a range of new actions to support the climate change goals documented in the 2009 plan, including specific support for the use of Secondary Sales to reduce the GHG footprint of specific Yukon government buildings.
- d) Mineral Development Strategy: the Department of Energy, Mines and Resources is currently drafting a Mineral Development Strategy which may influence electrical infrastructure development in the future.

4.3 REGULATORY

The utility industry is facing regulatory change and uncertainty in a number of jurisdictions across North America. However regulatory frameworks remain consistent in Yukon. YEC has experienced challenges

with recent decisions by the Yukon Utilities Board (YUB) related to the Diesel Contingency Fund (DCF) and the Energy Reconciliation Adjustment (ERA). Recent policy decisions by the Yukon government such as the Independent Power Producer policy have necessitated interconnection agreements and tariff structures that will require review and approval by the YUB.

4.4 SOCIAL

Active First Nations engagement and support remains essential to YEC's business success. YEC has had some success in First Nations engagement over the past few years, including the successful investment by the Kwanlin Dun First Nation (KDFN) in a debenture associated with the LNG project, and the delivery of a cultural benefits agreement with the Ta'an Kwach'an Council (TKC) for the LNG project. In addition, YEC has recently kicked off a co-management process with the Champagne and Aishihik First Nations (CAFN) for the relicensing of the Aishihik hydro facility. This co-management framework represents a significant evolution in YEC's approach towards regulatory applications, moving to a more partnership-focused approach with the First Nation. However YEC continues to face general engagement challenges related to historic grievances with legacy Northern Canada Power Commission projects.

YEC's relationships with other stakeholders and the general public have improved over the past year, and Management has made significant effort to rebuild trust through proactive, transparent communications. However, the Yukon population remains fairly polarized on key issues related to Energy.

5.0 2016 GOALS

5.1 FRAMEWORK

In 2015 Yukon Energy introduced a new system of goal setting and associated performance management. The goals provide a focal point for the planning and execution of work at all levels of the organization, and provide a framework for measuring and tracking progress through the year. Management followed a 'SMART' goal setting framework – where goals are defined to be specific, measurable, attainable, realistic and time-bounded ("S.M.A.R.T."). Corporate goals were set as a starting point, and then cascaded into departmental goals, and ultimately individual goals for employees. The cascading of goals from the corporate level to departments and individuals is intended to provide clear strategic direction and "line of sight" for employees to see the important role they play in achieving collective corporate objectives. This integration of goals, supported by work plans that identify activities and resources necessary to achieve key milestones and deliverables, is central to the business plan.

This framework for goal setting and monitoring will be continued in 2016.

5.2 KEY FOCUS AREAS & THEMES

In developing corporate and department level goals for 2016, Management identified the following themes or categories to address key areas of focus and/or risk in YEC's current business. The following major themes were identified:

- Health & Safety (H&S)
- Reliability
- Financial Performance
- Continuous Improvement
- Major Projects
- Asset Integrity
- Environment

A number of specific themes and sub-themes are of particular priority:

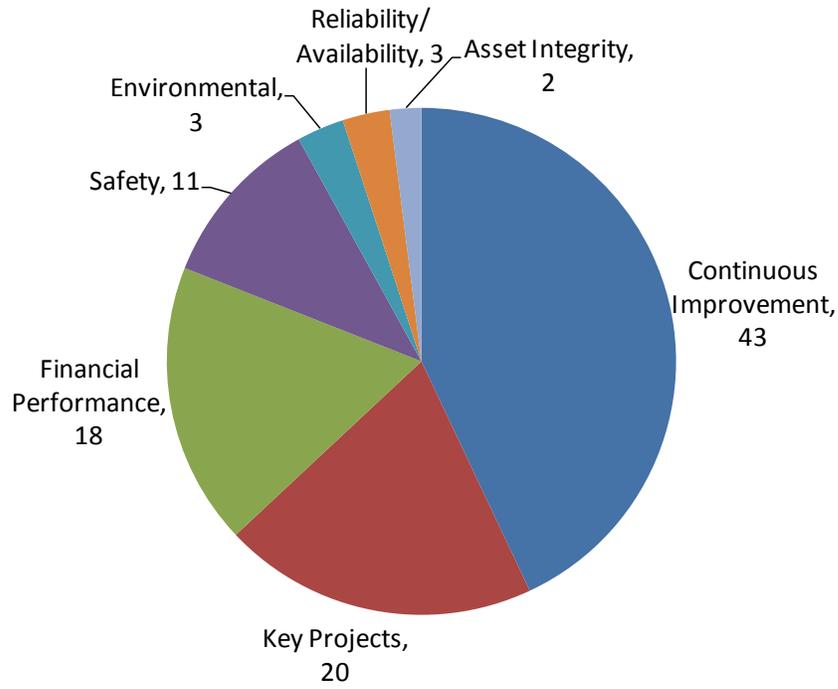
- a) Continuous Improvement: this remains a core management philosophy to achieve incremental and sustained improvements in YEC's operational performance. Management has set corporate goals for 2016 to review and update a number of key business processes, including Capital Budgeting, Project Management and Asset Assessment. In addition, approximately 43 percent of the departmental level goals for 2016 are continuous improvement goals.
- b) Key Project execution: successful execution of capital and planning projects is a key success factor for YEC's business, and goals have been set at the corporate and departmental level to focus attention of successful delivery of these projects. Corporate goals are set for completion of the Aishihik elevator project, completion of detailed engineering on the Stewart-Keno transmission line project, and successful completion of the 2016 Resource Plan. Approximately 20 percent of the departmental level goals for 2016 fall into this category.
- c) Development of First Nations related practices and policies: recognizing the increasing interest and role of First Nations in resource development in Yukon and YEC's goal of deepening its relationships and engagement with First Nations, Management has set a number of goals for 2016 to develop and update YEC's First Nations-focused business practices, policies and procedures. These include the development of First Nations employment and procurement policies. Specific FN engagement goals have been set to support the resource plan and the Aishihik relicensing project.
- d) Risk Management: a number of departmental goals were generated directly from the risk mitigation plans that have been developed to address the key corporate risks.

5.3 2016 CORPORATE GOALS

YEC's Corporate Goals for 2016 are presented below:

Goal	Theme
C1. Achieve All Injury Rate of 1 or less	H&S
C2. Achieve Motor Vehicle Accident Rate of 4 or less	H&S
C3. Achieve 10 or less Controllable Outages	Reliability
C4. Achieve ROE of 8.25%	Financial Performance
C5. Implement updated Capital Budgeting and Project Management processes	Continuous Improvement
C6. Aishihik Elevator Project completed on budget (\$9.51M)	Key Projects
C7. Detailed Engineering on SKTP completed on time and on budget (\$5.3M)	Key Projects
C8. 2016 Resource Plan complete & available for submission to the YUB	Key Projects
C9. Achieve Sustainable Electricity Company™ designation	Continuous Improvement

A list of the 2016 Departmental Goals are presented in Appendix 1. A summary of the Departmental Goals by type is presented below:



APPENDIX 1: 2016 DEPARTMENTAL GOALS

ENGINEERING DEPARTMENT

Goal	Theme
E1. Achieve All Injury Rate of 1 or less	Safety
E2. Manage Engineering Non-Labour Budget below \$0.504M	Financial Performance
E3. Complete Capital Projects on time and within budget of \$10.995m	Financial Performance
E4. Review & update Capital Budgeting process	Continuous Improvement
E5. Review & update Project Management process for Capital Projects	Continuous Improvement
E6. Implement procedure for maintenance support (incl. review of maintenance instructions & equipment tolerances for PM's; policy for reviewing PM reports)	Continuous Improvement
E7. Hold regular (min quarterly) update meetings to schedule resources for Capital and O&M projects	Continuous Improvement
E8. Aishihik Elevator Project completed on budget (\$9.51M)	Major Projects
E9. Detailed Engineering on SKTP completed on time and on budget (\$5.3M)	Major Projects
E10. Review & update Asset Assessment methodology (Incl. standardized scope of work and deliverables)	Asset Integrity
E11. Produce 2 New (or updated) Standards Documents for Equipment	Continuous Improvement
E12. Establish Instrument Certifications / Calibrations, and Tracking and records thereof	Continuous Improvement

OPERATIONS DEPARTMENT

Goal	Theme
O1. Achieve All Injury Rate of 1 or less	Safety
O2. Achieve Motor Vehicle Accident Rate of 4 or less	Safety
O3. Achieve 10 or less Controllable Outages	Reliability/ Availability

Goal	Theme
O4. Manage Operations Non-Labour budget below \$3.406M	Financial Performance
O5. Manage Operations Capital budget below \$3.38M	Financial Performance
O6. Maintain >95% reliability of equipment	Reliability/ Availability
O7. Maintain > 95% availability of equipment	Reliability/ Availability
O8. Create and refine LNG tank management procedures	Continuous Improvement
O9. Identify critical spare parts, management process and documentation	Continuous Improvement
O10. Support and assist the 2016 Capital projects	Key Projects
O11. Zero work fatigue related injuries	Safety

FINANCE DEPARTMENT

Goal	Theme
F1. ROE meets or exceeds Board approved budget	Financial Performance
F2. 2017 General Rate Application prepared & available for filing	Financial Performance
F3. IFRS Compliance as demonstrated by clean audit opinion on 2015 Financial Statements	Key Projects
F4. Implement revamped time entry process	Continuous Improvement
F5. Implement information management, reporting and internal controls for revamped Capital Budgeting and Project Management processes	Continuous Improvement
F6. Build functional reports for Personnel and Sales & Generation	Continuous Improvement
F7. Develop policy statement on appropriate risk analysis, management and reporting for Large Capital Projects (\$1,000,000+)	Key Projects

Goal	Theme
F8. Develop process for departmental risk management and reporting	Key Projects
F9. Develop plan for 2017 implementation of DRP/BCP	Key Projects
F10. Develop methodology for bottom-up review of key Non-Labor budget categories	Continuous Improvement

PROCUREMENT DEPARTMENT

Goal	Theme
P1. Manage Procurement Non-Labour Budget below \$0.012M	Financial Performance
P2. Update procurement policy documents harmonized with the Yukon government	Continuous Improvement
P3. Develop First Nations procurement policy	Continuous Improvement
P4. Implement updated process for bid distribution	Continuous Improvement
P5. 95 percent of purchase orders released within 72 hours of approval	Continuous Improvement
P6. Transition responsibility for inventory system management to Property Management department	Continuous Improvement

PROPERTY MANAGEMENT DEPARTMENT

Goal	Theme
PM1. Achieve All Injury Rate of 1 or less	Safety
PM2. Achieve Motor Vehicle Accident rate of 4 or less	Safety
PM3. Manage Materials/Warehouse, Non-Labour Budget below \$0.037M	Financial Performance
PM4. Manage Property and Fleet Non-Labour Budgets below \$1.384M	Financial Performance
PM5. Complete Capital Projects on time and within budget of \$1.088M	Financial Performance

Goal	Theme
PM6. Develop and execute plan for integrating Property asset inventory and condition assessments into CMMS	Continuous Improvement
PM7. Transition responsibility for inventory system management from Procurement department	Continuous Improvement
PM8. Optimize warehouse/line crew working accommodations at Kulan	Continuous Improvement
PM9: Implement support systems for Critical Spares program (e.g. inventory monitoring)	Continuous Improvement

BUSINESS DEVELOPMENT DEPARTMENT

Goal	Theme
BD1. Identify and Develop Secondary Sales opportunities to secure at least one new secondary sales customer	Financial Performance
BD2. Update Corporate Mission, Vision and Values	Continuous Improvement
BD3. Secure LNG supply, transportation and logistics options for 2016/17 Winter Season	Key Project
BD4. Secure Proactive First Nation Engagement on Aishihik Water Licence Project	Key Project
BD5. Secure Proactive First Nation Engagement on Integrated Resource Plan	Key Project
BD6. Develop a First Nation Corporate Risk Mitigation Plan	Continuous Improvement
BD7. Build and maintain relationships with key stakeholders on identified projects.	Key Project
BD8. Develop a Master Plan for Corporate Communications infrastructure, scoping future scenarios and identifying gaps from existing network assets & support resources	Continuous Improvement

HUMAN RESOURCES DEPARTMENT

Goal	Theme
HR1. Manage HR Non-Labour Budget below \$0.331M	Financial Performance

Goal	Theme
HR2. Develop Key Person Risk Mitigation Plan	Continuous Improvement
HR3. Develop and Implement a First Nations recruitment policy	Continuous Improvement
HR4. Update and Implement a Rewards and Recognition Program	Continuous Improvement
HR5. Develop Succession Plans for identified key employees based on 2015 Gap Analysis	Continuous Improvement
HR6. Develop & Evaluate Options for an internship program (possibly aligning with the scholarship program)	Continuous Improvement
HR7. Review & update Performance Review process	Continuous Improvement

COMMUNICATIONS & MARKETING DEPARTMENT

Goal	Theme
CM1. Execute effective communications and engagement related to our 2016 Resource Plan.	Key Project
CM2. Execute effective communications and engagement related to the re-licensing of our Aishihik hydro facility.	Key Project
CM3. Complete a new corporate website.	Continuous Improvement
CM4. Increase public awareness about Yukon Energy's commitment to alternative renewable energy projects.	Key Project
CM5. Provide communications support to effectively implement inCharge programs and increase brand awareness.	Key Project

IT DEPARTMENT

Goal	Theme
IT1. Achieve All Injury Rate of 1 or less	Safety
IT2. Manage IT Non-Labour Budget below \$0.508M	Financial Performance

Goal	Theme
IT3. Complete Capital Projects on time and within budget of \$0.415M	Financial Performance
IT4. Achieve 99.8 percent uptime for Yukon Energy’s network and servers	Continuous Improvement
IT5. Achieve a 95 percent satisfaction rate by YEC users	Continuous Improvement
IT6. Confirm “ownership” and lifecycle costs and support requirements on all software	Continuous Improvement
IT7. Increase community communications reliability and uptime to 95 percent	Continuous Improvement
IT8. Develop and Implement a procedure to manage vendor compliance with systems to protect the corporations assets (security audits, policies, training, maintenance)	Continuous Improvement
IT9. Implement a software solution to manage maintenance and replacement of YEC technology assets (hardware and software) using CMMS or other	Asset Integrity

HEALTH & SAFETY DEPARTMENT

Goal	Theme
S1. Support All Injury Rate of 1.0 or less	Safety
S2. Support Motor Vehicle Incident Rate of 4.0 or less	Safety
S3. Manage Health & Safety Non-Labour Budget below \$0.122M	Financial Performance
S4. Manage Health & Safety Training budget below \$0.038M	Financial Performance
S5. Secure a 70 percent attendance level for safety meetings in all departments	Continuous Improvement
S6. Work with Operations to coordinate site evacuation exercises for all sites as required by regulators	Safety
S7. Implement a leading indicator plan to support management’s expectations for safe behaviours and practices on every job	Continuous Improvement
S8. Develop and promote a safety rewards & recognition program for all staff	Continuous Improvement

Goal	Theme
S9. Record and report revised Health & Safety KPI's using the CEA reporting format	Continuous Improvement

PLANNING DEPARTMENT

Goal	Theme
PR1. Achieve All Injury Rate of <1	Safety
PR2. Manage Capital Project Budget <= \$5.164M	Financial Performance
PR3. 2016 Resource Plan Completed and ready for submission to the YUB	Major Projects
PR4. Submit YESAB application for Southern Lakes ESP (contingent on project stagegate approval)	Major Projects
PR5. Advance Mayo ESP project to Board stagegate review	Major Projects
PR6. Complete key Energy Conservation initiatives (inCharge, Commercial Lighting, LED streetlights)	Major Projects

ENVIRONMENT DEPARTMENT

Goal	Theme
ENV1. Achieve zero hydro ramping-related fish stranding incidences resulting in DFO investigations	Environmental Performance
ENV2. Manage Environment Non-Labour Budget below \$0.215M	Financial Performance
ENV3. Achieve zero externally reportable spills/releases	Environmental Performance
ENV4. All facilities equipped for max waste diversion (Containment for Wood, Metal, Cardboard, Recyclables)	Environmental Performance
ENV5. Attend 2 or more departmental staff mtgs. for each work group to review relevant Environmental Work Practices (EWPs) and encourage "Environment Moments"	Continuous Improvement

Goal	Theme
ENV6. Develop defined web presence/content for Environment on Corporate website	Continuous Improvement
ENV7: Achieve Sustainable Electricity Company™ designation	Continuous Improvement